



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

July 31, 2008

Karen Whisenand, Training Coordinator
Recot Inc., d.b.a. Frito-Lay Inc.
9535 Archibald Avenue
Rancho Cucamonga, CA 91730

Dear Ms. Whisenand:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET03-0317 for the period June 30, 2003 through June 29, 2005. Since Recot Inc., dba Frito-Lay Inc. concurred with the audit finding, a draft audit report was not issued.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Charles Rufo, Audit Director, at (916) 327-5439.

Sincerely,

Original signed by:

Charles Rufo
Audit Director

Enclosures

cc: Ms. Nancy Cramer, West Division LSI Manager
Mr. Ray Ginocchio, Region CI Manager
Mr. Chris Davis, Training & Development Manager

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Recot Inc., d.b.a. Frito-Lay Inc.

Agreement No. ET03-0317

Final Audit Report

For The Period

June 30, 2003 through June 29, 2005

Report Published July 31, 2008

Charles Rufo, Audit Director
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AUDITOR'S REPORT

Summary

We performed an audit of Recot Inc., d.b.a. Frito-Lay Inc., Agreement No. ET03-0317, for the period June 30, 2003 through June 29, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit fieldwork was performed during the period May 21, 2007 through July 10, 2007.

The Employment Training Panel (ETP) paid the Contractor a total of \$354,978.90. Our audit supported that \$354,413.40 is allowable. The balance of \$565.50 is disallowed and must be returned to ETP. The disallowed costs resulted from 3 trainees who did not complete the reported class/lab training hours.

AUDITOR'S REPORT (continued)

Background

Recot, Inc., dba Frito-Lay, Inc. (Frito-Lay) produces and distributes a wide range of snack foods, including Lays Potato Chips, Doritos, Ruffles, and Rold Gold Pretzels. Frito-Lay has approximately 100,000 employees worldwide, 4,000 of which are in California. Training was to be conducted at the Rancho Cucamonga facility.

This Agreement was the eleventh training project between ETP and Frito-Lay, and the third at the Rancho Cucamonga facility. Frito-Lay representatives reported that in order to ensure continued success, the company must implement new strategies, at higher skill levels, to maintain a highly skilled and efficient work force. The proposed ETP training includes Business Skills, Continuous Improvement, and Manufacturing Skills. Frito-Lay representatives plan the resulting skills from training to decrease customer complaints, increase production, and decrease downtime.

This Agreement allowed Recot Inc., dba Frito-Lay Inc. to receive a maximum reimbursement of \$357,994.00 for retraining 562 employees. During the Agreement term, the Contractor placed 357 trainees and was reimbursed \$354,978.90 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Recot Inc., dba Frito-Lay Inc. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Recot Inc., dba Frito-Lay Inc. complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.

AUDITOR'S REPORT (continued)

- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$354,413.40 of the \$354,978.90 paid to the Contractor under this Agreement was allowable. The balance of \$565.50 was not earned according to the terms of the Agreement and must be returned to ETP.

Views of Responsible Officials The audit findings were discussed with Karen Whisenand of Recot Inc., dba Frito-Lay Inc. during a telephone exit conference held on July 16, 2007. Because the Contractor did not oppose the audit finding, it was agreed that a draft audit report would not be issued.

The issuance of your final review report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning July 31, 2007, through the issue date of this final audit report. The interest waiver (adjustment) was \$53.28, which was deducted from the total accrued interest.

Audit Appeal Rights If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

AUDITOR'S REPORT (continued)

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Charles Rufo
Audit Director

Fieldwork Completion Date: July 10, 2007

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET03-0317 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

RECOT INC, DBA FRITO-LAY INC.
AGREEMENT NO. ET03-0317
FOR THE PERIOD
JUNE 30, 2003 THROUGH JUNE 29, 2005

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$354,978.90</u>	
Costs Disallowed:		
Insufficient Training Hours	<u>\$565.50</u>	Finding No. 1
Training Costs Allowed	<u><u>\$354,413.40</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Training documentation provided by Recot, Inc., dba Frito-Lay Inc. Insufficient (Frito-Lay) did not support the total number of training hours Training Hours reported for three Job No. 1 trainees. As a result, we disallowed 43.5 training hours claimed for these trainees in the amount of \$565.50 [(43.5 training hours disallowed) x (\$13 per hour)].

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training. Classroom/laboratory training records must include the training date(s) and hours attended, training type, and the trainer and trainee's signatures.

Paragraph 2 (b) of the Agreement between ETP and Frito-Lay states, "Due to the pilot/experimental nature of this Agreement, reimbursement will be based on the total actual number of training hours completed by each trainee..."

Frito-Lay reported total class/lab training hours recorded on rosters for each individual trainee. ETP reimbursed Frito-Lay for each trainee in amounts equal to the number of hours reported. The table below shows Class/Lab training hours reported and allowable training hours attended for the 3 trainees.

Trainee No.	Class/Lab Training Hours Reported	Training Hours Disallowed	Allowable Training Hours	Code
1	77	18.5	58.5	A
2	150	17.5	132.5	B
3	62.25	7.5	54.75	C
		43.5		

LEGEND:

A = Unsupported training per trainee timecards on 4/29/04 & 4/25/04 and no training roster for trainee on 1/4/05.

B = Training rosters for 17.5 hours were reported to have occurred on August 7, 2005, and August 8, 2005, roster numbers 2415 and 2460, respectively, which were outside the Agreement term [Note: These training hours were not submitted/reported for the 3 other placed trainees shown on these rosters].

C = Unsupported training per trainee timecards on 3/22/05 & 3/23/05 and no training roster for trainee on 5/12/04.

Recommendation Frito-Lay must return \$565.50 to ETP. In the future, the Contractor should ensure that training records support the reported number of training hours as required by the Agreement prior to claiming reimbursement from ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006